How do Section 125 contributions affect other tax-deferred contributions?

You should be aware of how your contributions to Section 125 will affect your contributions to the Deferred Compensation Plan (457) and 403(b) tax-sheltered annuity plans.

Your 457 contribution is deducted from your salary after your mandatory 414(h) pension contribution, 403(b) contribution and Section 125 (Tax$ave) contribution. Your base salary for purposes of determining your 457 contribution excludes your contributions to these other tax deferred plans.

Your 403(b) contribution is deducted from your salary after your 414(h) contribution, but before your Tax$ave and 457 contributions.

For example, if your base salary is $40,000 and you have a 4.5% mandatory 414(h) pension contribution, your adjusted net salary is $38,200. If you were contributing 5% into your 403(b), your adjusted net salary would then be $36,290. If you set aside $1,000 in Section 125 contributions your adjusted salary would be $35,290. Your 457 contributions will be based on this new adjusted net income.

Base salary		$40,000
Less Mandatory Pension 414(h) - 4.5%	- 1,800	
Adjusted net salary		38,200
Less 403(b) - 5%		- 1,910
Adjusted net salary		36,290
Less Section 125	- 1,000	
Adjusted salary	35,290	
Less 457 - 6%		- 2,117

Mark these dates on your calendar!

Tax$ave 2000 Open Enrollment Period: October 1 – November 5, 1999
Application Deadline: November 5, 1999
Enrollment Effective Dates: January 1 – December 31, 2000
Initial Tax$ave 2000 Deduction will be from your first paycheck

New Jersey Division of Pensions and Benefits

Open Enrollment News

Tax$ave 2000

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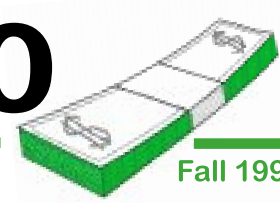

Don't miss your opportunity to enroll in Tax$ave during open enrollment

What is Tax$ave?

The year 2000 will have a different meaning for each of us – some may find it exciting, with new opportunities and challenges, some of us may reflect on the direction that our lives have taken and, either be satisfied or determined to make some changes. If the new year finds you contemplating your future, don't forget to take stock of what you can do now to enhance your financial situation in the tax year 2000. And when you're looking at doing "all that you can do", remember to include enrolling in Tax$ave 2000. After all, the New Jersey State Employees Tax Savings Program (Tax$ave) has been saving State employees tax money since 1996.

Tax$ave is a benefit program defined by Section 125 of the federal Internal Revenue Code. Tax$ave allows eligible employees to set aside, through payroll deductions, before-tax dollars that will be used to pay for qualified medical, dental, and dependent care expenses.

An eligible employee is any employee of the State, a state college or university, or other state agency who is eligible to participate in the State Health Benefits Program (SHBP).

Tax$ave consists of three separate components: the Premium Option Plan (POP), and two Flexible Spending Accounts—the Unreimbursed Medical Spending Account (UMSA) and the Dependent Care Spending Account (DCSA). An eligible employee may chose to participate in any or all of these plans.

The Premium Option Plan (POP) is administered by the State and allows you to pay any of your SHBP medical and/or dental premiums with before-tax dollars. Enrollment in the POP is automatic if you are making a premium contribution for dental and/or medical coverage. The result is that you will pay less in federal taxes. If you choose not to take advantage of this benefit under the POP, you must obtain the Declination of POP form from your benefits administrator. For details on the POP see the Premium Option Plan 2000 pamphlet that you received as a payroll stuffer. This pamphlet includes information on the savings available to you, and what to do if you wish to decline enrollment in the POP.

The two Flexible Spending Accounts (FSA's) provide innovative ways for you to save tax dollars. Horizon Healthcare Insurance Agency, Inc. administers both plans.

1) The Unreimbursed Medical Spending Account (UMSA) allows you to save taxes on out-of-pocket medical and dental expenses. IRS Publication #502, Medical and Dental Expenses, provides a complete list of services available for reimbursement. Basically, any medical or dental expense that would be deductible on your income tax is reimbursable under this FSA.

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Mark these dates on your calendar!

Tax$ave 2000 Open Enrollment Period:

October 1–November 5, 1999

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November 5, 1999

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January 1–December 31, 2000

Initial Tax$ave 2000 Deduction will be from your first paycheck in January 2000.

Tax$ave Open Enrollment

Your opportunity to take advantage of the benefits available to you through the POP and the two Flexible Spending Accounts will be during the Open Enrollment period for Tax$ave 2000 from October 1 through November 5, 1999. This is your chance to save tax dollars in the 2000 tax year.

Remember, enrollment in the (POP) component of Tax$ave is automatic every year. If you elect not to take advantage of this tax savings opportunity, you must complete the Declination of POP form available from your benefits administrator. To forfeit participation in the POP for tax year 2000, your declination form must be received in your benefits office before November 5, 1999.

The UMSA and/or DCSA components of the Flexible Spending Accounts require active enrollment each year. There are a variety of easy ways to enroll.

• You may enroll over the phone by calling Horizon Healthcare's automated voice response unit at 1-800-224-4426 starting October 1 through November 5, 1999; or

• You have the ability to enroll over the Internet during the same time period. Go to Horizon's Tax$ave site through a link from Pensions and Benefits' homepage at: *http://www.state.nj.us/treasury/pensions* and follow the simple directions; or

• You can still enroll the old fashioned way – by obtaining your new enrollment kit with the necessary FSA election forms from your benefits administrator. These forms must be postmarked by November 5, 1999 in order to enroll for the 2000 plan year.

If you participated in Tax$ave 1999 you will be contacted through the mail by Horizon Healthcare to remind you to en-

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What is Tax$ave?

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2) The Dependent Care Spending Account (DCSA) allows you to set aside up to $5,000 of your before-tax salary each calendar year to pay for qualified dependent care expenses. IRS Publication #503, Child and Dependent Care Expenses, provides a complete list of services available for reimbursement.

For details on the two FSA's, see the Tax$ave pamphlet, *Savings You Can Bank On...* that you received as a payroll stuffer. For further information on Tax$ave's Flexible Spending Accounts, we encourage you to visit Horizon's Internet site for Tax$ave information, forms and interactive calculation tools. This site can be reached through a link from the Division of Pension and Benefits homepage at *http://www.state.nj.us/treasury/pensions*

Tax$ave Open Enrollment

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roll again for 2000. Remember, to reenroll, you may follow the instructions above to call Horizon Healthcare's automated system, or reenroll over the Internet at the Tax$ave site.

Do Tax$ave contributions affect other tax-deferred contributions?

You should be aware of how your contributions to Section 125 (Tax$ave) will affect your contributions to the Deferred Compensation Plan (457) and 403(b) tax-sheltered annuity plans (SACT, ABP, ACTS).

Your 457 contribution is deducted from your salary after your mandatory 414(h) pension contribution, 403(b) contribution and Section 125 contribution. Your base salary for purposes of determining your 457 contribution excludes your contributions to these other tax deferred plans.

Your 403(b) contribution is deducted from your salary after your 414(h) contribution, but before your Tax$ave and 457 contributions.

For example, if your base salary is $40,000 and you have a 4.5% mandatory 414(h) pension contribution, your adjusted net salary is $38,200. If you were contributing 5% into your 403(b), your adjusted net salary would then be $36,290. If you set aside $1,000 in Section 125 contributions your adjusted salary would be $35,290. Your 457 contributions will be based on this new adjusted net income.

Base salary	**$40,000**
Less Mandatory Pension 414(h) - 4.5%	*- 1,800*
Adjusted net salary	**38,200**
Less 403(b) - 5%	*- 1,910*
Adjusted net salary	**36,290**
Less Section 125	*- 1,000*
Adjusted salary	**35,290**
Less 457 - 6%	*- 2,117*
Wages subject to federal income tax	**$33,173**
Total amount of before-tax deductions	*$6,827*

Additional information on the Flexible Spending Accounts can be obtained by attending one of the employee seminars offered by Horizon Healthcare Insurance Agency. For seminar information please call Horizon Healthcare at 1-800-224-4426.

Flexible Spending Accounts have minimal impact on Social Security benefits

Since payments to the Flexible Spending Accounts (UMSA and DCSA) and benefit premium payments under POP are not subject to Social Security deductions, some members have opted not to participate in Tax$ave because it would reduce their Social Security benefit. There are several reasons why this may not be a good financial decision.

First, Social Security benefits are calculated using a 35-year average of your earnings. A reduction of $2,000 a year or even $5,000 a year over some of the 35-year span would have little effect on your average salary. Second, Social Security is a progressive benefit; that is, lower earnings members receive a higher percentage benefit than higher earnings members. Finally, although Social Security will probably be there for you when you retire, no one knows its form or shape in the future.

The Social Security Administration has provided us with an example of an employee who retired in 1998 at age 65 and whose wages had been at the maximum wages subject to Social Security deductions. Upon retirement, this individual's monthly Social Security allowance was $1,343. If that same person had been contributing $2,000 a year for the last 10 years to a Flexible Spending Account, (which would have provided a tax savings of between $460 - $900 per year, depending on the person's tax bracket) the subsequent reduction in Social Security wages would have produced a monthly Social Security allowance of $1,335, a difference of less than $10 per month. Decide for yourself if this is reason enough to choose against saving on taxes now!

Remember to use the Internet site available through a link from: *http://www.state.nj.us/treasury/pensions* designed specifically for State employees.

NJ Division of Pensions and Benefits

Tax$ave 2000
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Fall 1999

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Tax$ave Open Enrollment News is published annually by the New Jersey Division of Pensions and Benefits to provide news and information to State employees regarding the New Jersey State Employees Tax Savings Program (Tax$ave). The articles in this publication are for information purposes only and, while every attempt at accuracy is made, it cannot be guaranteed. If you are considering participation in this plan, you should contact your accountant or tax attorney.

You can access Tax$ave forms and interactive calculation tools by visiting Horizon through a link from Pensions and Benefits' homepage at: *http://www.state.nj.us/treasury/pensions*